

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 TRSE-00 FRB-03 INR-01

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P 210800Z MAR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 3837

C O N F I D E N T I A L ROME 3851

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: POSSIBLE UNIFICATION OF ITALIAN EXCHANGE MARKETS

PASS TREASURY AND FRB

1. HEAD OF BANK OF ITALY'S FOREIGN EXCHANGE OPERATIONS, ERCOLANI, TOLD TREASATT ON HIGHLY CONFIDENTIAL BASIS MARCH 20 THAT ITALIAN AUTHORITIES ARE SERIOUSLY CONSIDERING RE-UNIFICATION OF FOREIGN EXCHANGE MARKETS. MEASURE WOULD BE RECOGNITION OF (A) RELATIVE INEFFECTIVENESS OF DUAL MARKET AS MEANS TO IMPEDE CAPITAL FLIGHT, (B) EXISTENCE OF ARRAY OF EXCHANGE CONTROLS FOR LIMITING CAPITAL OUTFLOW (E.G., 50 PER CENT DEPOSIT REQUIREMENT ON CAPITAL OUTFLOWS) AND (C) DESIRABILITY OF SIMPLIFYING PRESENT COMPLEX SYSTEM PRESUMABLY, COMMERCIAL, FINANCIAL AND FOREIGN BANKNOTE RATES WOULD ALL BE UNIFIED INTO SINGLE OFFICIAL RATE. ERCOLANI SAID THAT REFERENCE TO MAINTENANCE OF DUAL MARKET SYSTEM CONTAINED IN DRAFT LETTER OF INTENT TO IMF HAD BEEN INCLUDED AT INITIATIVE OF GOI AND THAT IMF WOULD BE HAPPY WITH UNIFICATION ALTERNATIVE.

2. TREASATT WONDERED IF RESULT OF UNIFICATION MIGHT BE FURTHER DEVALUATION OF LIRA ON GROUNDS THAT PUBLIC

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MIGHT THINK THAT EQUILIBRIUM EXCHANGE RATE LAY MID-WAY

BETWEEN PRESENT COMMERCIAL RATE (633 LIRE ON MARCH 20)
AND FINANCIAL RATE (671 LIRE ON MARCH 20). ERCOLANI
REPLIED THAT VOLUME OF TRANSACTIONS IN COMMERCIAL
LIRA MARKET WAS ABOUT \$100 MILLION PER DAY, COMPARED
TO ONLY \$4-5 MILLION IN FINANCIAL LIRA MARKET. THUS,
ANY UNIFIED RATE SHOULD BE SOMEWHERE NEAR COMMERCIAL
LIRA RATE. VOLPE

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